

Industrial Distribution

April 1985

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Hotline:
Second-half
distributor sales
seen better
than anticipated



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Optimizing the Human Factor

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Product
Showcase Review
Fasteners

ID Industrial Distribution

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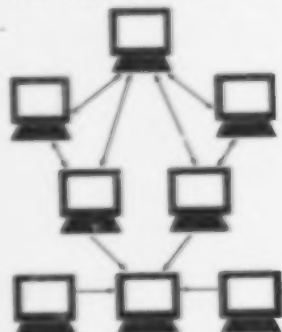
Computers, industrial psychology and financial imperatives are combining to tap the unlimited potential of the employee

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Industry markets goods through dual channels says McGraw-Hill study

NEW YORK—The majority of industrial marketers responding to a McGraw-Hill Laboratory of Advertising Performance

study, 53.5%, reported that they use a combination of both their own sales force and distributors to sell their products or services. In the case of commodity-type products such as chemicals and primary metals, direct selling alone far outweighed sales through distributors alone. However, even in these categories, selling through both

channels was the largest classification.

Of those marketers who limit themselves to just one channel, 24% said they sell direct to industry and 22.5% claim to use distributors, agents or dealers.

Shown below is the breakdown by industry of manufacturers using various channels of distribution.

Percent of Manufacturers Using Various Channels of Distribution

Industry

Chemicals & Allied Products
Stone, Clay & Glass Products
Primary Metal Industries
Fabricated Metal Products
Machinery, except Electrical
Electrical & Electronic Equipment
Transportation Equipment
Instruments & Related Products
Misc. Manufacturing Industries

Source: Laboratory of Advertising Performance/McGraw-Hill Research

Percent of Companies Using Each Channel of Distribution

33.8%	10.8%	55.4%
11.1%	38.9%	50.0%
15.0%	5%	80.0%
10.6%	39.4%	50.0%
19.3%	24.8%	55.9%
12.9%	23.8%	63.4%
31.8%	13.6%	54.5%
38.8%	21.2%	40.0%
29.6%	18.5%	51.9%

☐ Direct to industry
 ☐ Through distributors, agents or dealers
 ☐ Through both

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INDUSTRY NEWS...

Warner Electric acquired by Dana Corporation

TOLEDO, OH—Dana Corp. recently announced that it has completed the acquisition of Warner Electric Brake & Clutch Co. by merging a wholly owned Dana subsidiary into Warner.

As a result of the merger, Dana owns the entire equity interest in Warner Electric. The transaction is valued at approximately \$157 million.

The acquisition is expected to double Dana's sales through industrial distributors who, prior to the merger, numbered between 450-500 for each of the two companies.

According to S.J. Morcott, president of Dana's North American operations, Warner Electric which manufactures mechanical and electro-mechanical motion control devices, represents Dana's largest acquisition. "More important," said Morcott, "is that the Warner acquisition adds 2800 skilled people and many highly regarded products to the Dana family." □

Indicators . . .

Of the three key current indicators of distributors' economic activity, one is up, one is flat and one is down, continuing the inconclusive pattern of recent months. The NIDA-SIDA *Industrial Distribution Index* for January jumped ahead by 10.1 points over December '84 to 133.6. While advances occurred in all regions, the Midwest scored a 16.7 increase and the South a 96 improvement over year-end 1984 . . . SIDA's *Monthly Sales Trend Report* for December dropped 8.68 from the November level. In a December '84 comparison with December '83, the association shows an overall decline of 2.65 . . . ASMMMA's *New Order Index* dropped 0.5 points in December from November for an insignificant loss of 0.4%. The December figure of 122.7 represents the highest year-end level in the last four years and has only been surpassed twice in the last 39 months

. . . the American Machine Tool Distributors Assn. *Total Index* of orders dropped 4% in December to 857 from 893 the previous month. The extent of the recovery in machine tools orders can be seen from the fact that the December '83 index stood at 60.3 . . . the National Wholesale Hardware Assn.'s *Hardware Sales Index* dropped 5.7% in December from November. Losses occurred in all regions with the West experiencing the greatest drop-off, 14.5%. Nationally, however, December '84 figures are 7% higher than December '83 . . . *The Quick Pulse Aluminum Service Center Index* of monthly shipments compiled by the National Assn. of Aluminum Distributors for December '84 fell to 99.5 from 113.4 in November . . . the Copper and Brass Servicenter Assn. *Flash* report of free cutting brass rod shipments dropped from 111.2 in November '84 to 87.7 in December the low of the year.

WD-40® springs for free goods and \$10,000.

Our spring promotion is a winning combination: free goods and cash prizes.

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Write in NO. 13

INDUSTRY NEWS...

BSA 19th convention slated for British Columbia May 12-16

CHICAGO, IL—Bearing Specialists Assn. will hold its 19th Annual Convention in Vancouver, British Columbia between May 12 and May 16.

Highlights of the event will include:

- "A Taste of Canada" welcome reception and dinner.
- A workshop, "College-Level Industrial Distribution Programs."

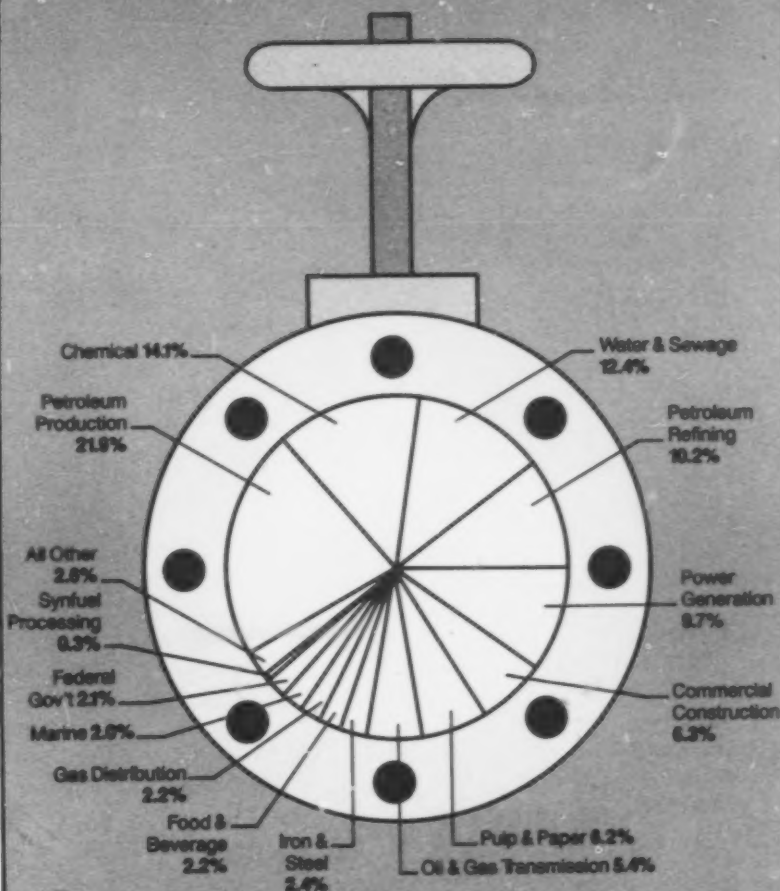
- A Data Processing Workshop, "Networking The Bearing Industry."
- The BSA Member/Supplier Panel discussing "The Bearing Distribution Industry From Past to Present."
- A presentation entitled "What Is NAW and What Is Its Role With BSA Members."

According to BSA, registration for the convention must be received by April 12. For additional information contact Bearing Specialists Assn., 221 North LaSalle Street, Chicago, IL 60601 or phone 312-346-1600. □

VMA forecasts 3% increase in 1985 valve shipments

WASHINGTON - According to a recent survey conducted among its membership, the Valve Manufacturers Assn. (VMA) is forecasting a three percent overall increase in 1985 sales compared to 1984. In turn 1984 is expected to register a four percent improvement over the previous year making it the first increase since 1981.

The following is 1985 projected domestic industrial valve shipments broken down into end use by percentage:



Source: VMA Statistical Programs



CALL TO ACTION

WASHINGTON - Recently released Internal Revenue Service regulations mandating extensive business vehicle use recordkeeping are causing an uproar in the Nation's Capital. Part of the Tax Reform Act of 1984, the IRS implemented the rules effective January 1, 1985.

HOW IT WILL AFFECT YOU

Unless repealed or modified, these burdensome regulations will continue to require distributors and others to record each business use of a company vehicle, including the user's name, date, place, time, distance travelled and purpose of the trip to qualify for business deduction.

Requiring such recordkeeping will hurt industrial distributors in several ways. It is a non-productive use of employee—chiefly sales—time. It is costly, both in terms of time and dollars spent to keep and file the required logs. And, perhaps, most important of all—certainly, most insidious of all—the new regs undermine the bond of cooperation and honesty between the vast majority of companies and the federal government.

ACTION!

Already, literally *thousands* of distributors have written urgent letters to their Senators and Representatives in opposition to the IRS vehicle recordkeeping regulations. They have been joined by thousands of other businessmen. If you are not among these business activists, there hasn't been a better time to get involved in a *long* time!

SEND MAIL TO:

(Your Senator) United States Senate, Washington, DC. 20510. (Your Representative) US House of Representatives, Washington, D.C. 20515. *Call to Action* is a monthly news feature supplied by the National Association of Wholesaler-Distributors.

REGIONAL REPORT

January sales rebound

After two straight months of decline, dropping from 26% in October down to a gain of only 4% in December (see graph), sales rebounded in January rising to 13% nationally over January of '84.

All of the regions participated in January's rise. In national regional comparisons, the Middle Atlantic is strongest with a gain of 20% followed by East North Central at 16% and South Atlantic, up 12%.

In area reporting, Michigan is strong-

est nationally at 32% followed by Pennsylvania at 22% and Ohio at 16%. The weakest region is West South Central having only a 1% sales gain; the weakest area is Wisconsin which registered a hefty 12% rise.

The comparisons for the first month of '85 compared to '84 is identical to January's national statistics, the only month when this duplication occurs.

In month-to-month statistics, the gains, although not as strong as the

yearly comparisons, are still encouraging as they are nearly unanimous.

The only region showing a monthly comparative loss is Pacific, down 9%. The strongest regional gain is the 17% rise from the Middle Atlantic. This region is strong in all categories in January. The best area gain is Michigan's 29% followed by Ohio's 25%.

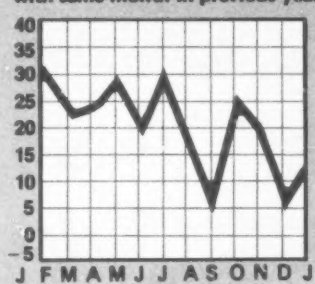
The U.S. Total for January '85 vs. Dec. '84 is +8% which compares with last month's -7% (Dec. '84 vs. Nov. '84). □

RECEIVABLES*

	Jan. '85		vs	Jan. '84	
	Gen.	Spec.		Gen.	Spec.
New England.....	54	50		46	50
Middle Atlantic.....	43	42		43	46
South Atlantic.....	37	32		35	35
East North Central.....	38	44		37	40
East South Central.....	35	—		—	—
West North Central.....	—	40		—	37
West South Central.....	46	41		49	39
Mountain.....	32	—		32	—
Pacific.....	40	41		42	42
National.....	41	41		40	41

*Average days outstanding

% change in sales when compared with same month in previous year



January sales break downtrend...

SALES BY REGIONS (% change)

	Jan. '85 vs Dec. '84			Jan. '85 vs. Jan. '84			1st month '85 vs 1st month '84		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	-2	+13	+5	+2	+17	+10	+2	+17	+10
Connecticut	-5	—	—	-8	—	—	-8	—	—
Massachusetts	0	—	—	+17	—	—	+17	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+17	+16	+17	+33	+14	+20	+33	+14	+20
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	—	+4	—	—	+12	—	—	+12	—
Pennsylvania	0	+15	+6	+21	+23	+22	+21	+23	+22
SOUTH ATLANTIC: DE, DC, MD, FL, GA, INC, SC, VA, WV	+5	+12	+7	+14	+10	+12	+14	+10	+12
Georgia - Florida	+1	—	—	+27	—	—	+27	—	—
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	+29	+7	+16	+13	+18	+16	+13	+18	+16
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+21	-4	0	+8	+13	+12	+8	+13	+12
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+14	+40	+29	+16	+44	+32	+16	+44	+32
Ohio	+40	+11	+25	+15	+18	+16	+15	+18	+16
EAST SOUTH CENTRAL: AL, MS, KY, TN	+22	—	—	+33	—	—	+33	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	—	+17	—	—	+8	—	—	+8	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	+21	-2	+10	+7	-6	+1	+7	-6	+1
Texas	—	—	—	—	—	—	—	—	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	+5	—	—	+11	—	—	+11	—	—
PACIFIC: CA, OR, WA	-14	+5	-9	+7	+5	+7	+7	+5	+7
L.A. - San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	—	—	—	—	—	—	—	—
U.S. TOTALS	+7	+10	+8	+13	+12	+13	+13	+12	+13

HOTLINE

Second-half distributor sales seen better than anticipated

While "guesstimates" on business activity range from mildly bearish to very bullish, experts perceive unexpected strength in the economy.

WASHINGTON—While economic pundits, prophets and seers continue to vociferously differ on the fate of business activity in the second half of 1985, many indices point to surprising vigor which should be reflected in strong distributor sales.

Despite strong disagreement and often contradictory opinions of economists, the consensus at year-end '84 called for reduced growth in the latter months of 1985, some claiming this "growth recession" would actually result in, at best, a 1-2% increase in the GNP compared to 1984's vigorous 8%. Today, estimates are being revised sharply upward.

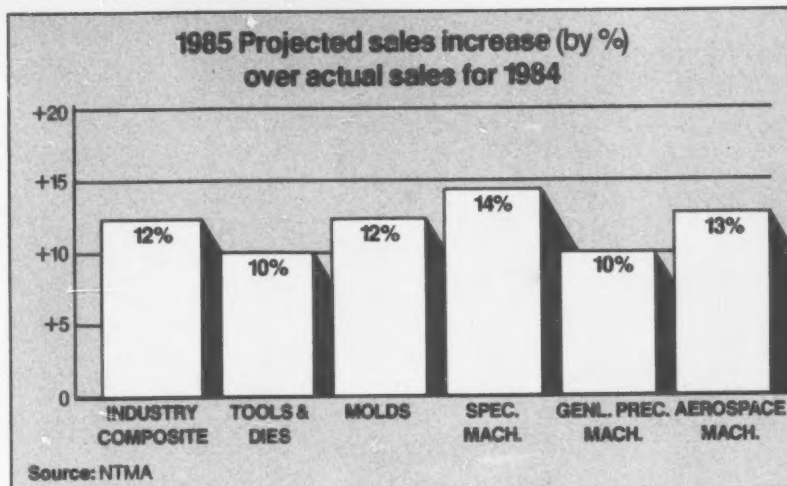
University of Michigan economist, Saul H. Hymans, winner of the Silbert Economic Forecasting Award for "accuracy, timeliness and professionalism in economic predictions," expects to see second half '85 growth surpassing that of the first half. Hymans reportedly foresees about a 5% increase in business in the final two quarters of the year.

And Dr. Michael K. Evans, consulting economist to the American Production and Inventory Control Society, sees the economy "... poised for strong gains in 1985. It will expand well over 4% this year making it the third consecutive year of above average growth," he says. 1985 should be a good year for all major components of the economy, notes Evans including consumption, capital spending, housing, "and even the beleaguered foreign sector," states Evans.

Another voice added to the optimistic chorus is that of the normally cautious Conference Board. While expressing uncertainty over the impact of what he calls "the new policy molecule comprised of massive budget deficits, high and volatile interest rates, an ever-widening trade deficit and a powerfully overvalued dollar," Conference Board economic counsellor, Albert T. Sommers sees expansion continuing "... on its upward track over the next six months."

Sommers, however, acknowledges the difficulties engendered in economic forecasting resulting from Reaganomics which, he says, "has stood conventional economics on its ear."

Repeating an increasingly familiar



theme, Sommers confirms the frustration experienced by economists in attempting to make accurate forecasts when the results of Reaganomics "... seem to differ wildly from almost everything assumed to be true about economic policy.

"The results," quips Sommers, "have produced such low levels of forecast accuracy as to convert the whole forecasting profession from a growth industry to a declining industry." One of the greatest economic mysteries of all time, says Sommers, is why the biggest and most prolonged budget deficits of the postwar years should be associated with the strongest dollar of the postwar years.

Regardless of the apparent contradiction, David P. Reynolds, chairman and CEO of Reynolds Metals Company predicts that aluminum consumption will reach a record level in 1985 for the second consecutive year with total aluminum consumption to surpass 16 billion pounds compared to 15.3 billion pounds in 1984.

Use of the metal in transportation, building and construction, electrical, machinery and equipment markets will show gains over 1984, says Reynolds.

According to the National Assn. of Aluminum Distributors, distributor shipments are expected to advance 58% in 1985 to a record 1.45 billion pounds following an 8.9% increase in 1984. NAAD estimates that share of total products marketed by distributors will increase to 13.5%.

The National Machine Tool Builders Assn. (NMTBA) also sounded a note of optimism when it announced that orders

for new American-built machines rose a dramatic 72% in 1984 over '83.

"Compared to 1983, '84 was a banner year for the American machine tool industry," remarked James A. Gray, NMTBA president, "but there is still plenty of room for improvement in 1985."

Heavy construction, which demonstrated new muscle in 1984 after a prolonged period of stagnation, is expected to continue to expand in 1985, according to the publication, *Engineering News Record*.

The publication says that contractors could receive \$125.7 billion in new contracts for heavy nonresidential buildings and multi-unit residential projects in 1985, an increase of 5% over 1984 levels which, in turn, topped '83 by 12%.

New contracts will be led by gains in highway, bridge, airport and military construction work, said the forecast.

A final vote of confidence in the economy comes from the National Assn. of Credit Managers which sees an easing in corporate credit policies in 1985 resulting from rising sales and profits. According to its forecast, fewer NACM members see more stringent credit policies in their industries, fewer predicted an increase in accounts placed with commercial collection agencies and fewer expected a growing number of bankruptcies.

For distributors basing inventory and expansion plans on prognostications of the economy's future, prudence would dictate a scenario of expecting increases in the range of 5-12% ... and then devoting some time to prayer. **Doug Harper**

PRODUCT SHOWCASE REVIEW: FASTENERS

ID's Distributor Product Showcase of a year ago was an updated merchandising guide for fasteners. This review is the follow-up focusing on current and projected trends and opportunities for distributors in the fastener market.

The fastener business has only recently emerged from a period of weakness and now seems to be firmly on the road to recovery according to trade sources and manufacturers interviewed by *ID*.

Although most expect 1985 to end with a record of solid accomplishment if not the blockbuster activity of 1984, many still worry about the pockets of resistance including agriculture, petroleum, and mining.

According to C.G. Scofield, managing director of the Industrial Fasteners Institute in Cleveland, the fastener industry has been wrung out over the past 9-10 years by foreign competition to the extent that some estimates say that 50% of standard products are imported.

That wringing out, says Scofield, caused a lot of plant closings and consolidations and, in some cases, companies literally going out of business.

It is possible that some additional consolidations will take place but Scofield thinks for the most part that business, "has settled down after a traumatic 10 year history and we know who we are and what we are today better than ever before.

"The new breed of executives, with no reflection cast upon the old breed, are capable men who, in addition to being technically skilled, possess business skills," he notes.

"They are the kind of men, who for the most part, don't work out of their hip pockets. They are CAD/CAM. They are

computerized and they are entrepreneurs," he says.

"Our association is on a membership drive and we have just recently opened up membership to associate members, that is, suppliers of raw material, equipment and services commonly used in the industry.

"We feel that is going to be synergistic. We expect to bring in the suppliers who, in turn, will add substantially to the association that will, in turn, attract more manufacturing people. By the end of 1985, we hope to be approaching 100 members," Scofield reports.

"Last year was a good year compared to our most recent history and we hope to match the estimated \$2.70 billion figure of 1984 in 1985 led by several key



FASTENERS . . .

markets including automobiles, electronics, and home appliances," he relates.

He says that like other industries, members are still suffering from the doldrums created by the off-highway equipment, oilfield business and farm equipment shortfalls. "So we have three fairly good markets and three poor markets," Scofield says.

He adds that some markets are going to be hit more severely in the future by foreign competition in such areas as furniture which is currently an important market for U.S. fastener products.

may show a slight downturn.

Because of the smaller size of many of the distributor's customers, Wilson points out that one can be extremely successful while another can be "almost out of business; with little relationship to other factors.

"The bottom line for the customer," Wilson asserts, "is that he is placing orders with confidence that there will be a tomorrow. Control of growth and success for '85 have been returned in larger measure to the individual distributor to be determined by his service, ingenuity, efficiency and price superiority within

construction is down in the south central region as a result of the weakness of the oil industry, says Halvorsen.

Richard Payne, vice president-sales with Safety Socket Screw, Inc. says "We're not forecasting as great a sales increase as the one we had in 1984 which for us was an all-time high following the '82-'83 slump."

Payne points out that '84 was a 29% improvement over the previous year and thinks that a 10-11% increase over 1984 "will make us quite pleased although we're anticipating some price increases."

John Zehnder, president of Earnest Machine Products Company, Inc. says that his organization is looking toward road machinery and highway and bridge construction as the next source of new business.

The President of Accurate Threaded Fasteners Inc., Donald E. Surber, says his firm looks forward to the bulk of the year "with great optimism."

Although the economy appears to be leveling off, Surber says he will be "quite happy if '85 holds to '84 performance levels."

To remain competitive in the world marketplace, points out Surber, "we must continue to sell to customer demands for improved quality. Our edge will be quality and specialization."

Dick Kerr, president of Kerr-Lakeside, a fastener manufacturer, says that "Business is pretty good basically in sizes of 1/2" diameter and smaller. Just about a year ago things started perking and they've gotten better and better," Kerr says, adding "I know I'm getting a lot of business from the shortages out there and we've had pretty good inventories.

"I don't claim to be much of a forecaster but I do know that we have business and we're busy. And the business seems to be coming from tool and die makers and maintenance people although, selling to distributors, we don't always know where our products are going to end up," he points out.

"In many cases," says Kerr, "Imported fasteners seem to be in short supply and the prices are increasing rapidly.

"And as far as keeping steel inventory on hand and our inability to crystal-ball it, we've all become inventory conscious but we do feel the pinch of the so-called just-in-time inventory requirements," he adds.

"I'm cautiously optimistic throughout the remainder of 1985 but I think we're still in a recession," he says, "Even though business is generally better and we're going along pretty well, I don't

Estimated U.S. fastener consumption 1985 - 1987

(values in millions of dollars)

FASTENER TYPE	1985 \$	1986 \$	1987 \$
Total Fasteners*	\$4822	\$5048	\$5230
Bolts	\$959	\$1017	\$1068
Screws - Large	\$793	\$842	\$884
Screws - Small	\$812	\$853	\$886
Nuts	\$631	\$665	\$695
Non-Threaded	\$813	\$858	\$896
Aircraft, Aerospace	\$614	\$601	\$580
Specialty & Other	\$201	\$212	\$221

*Values rounded; totals may differ.

Source: Frost & Sullivan

"The American steel suppliers to the fastener industry have been impacted by some very high quality foreign products but there have been some concerted efforts to meet that competition within the fastener industry of North America," Scofield says.

Bradley D. Wilson, president of the National Fastener Distributors Assn. says that his organization's members are moving into 1985 with guarded optimism because "The struggles of 1982 and 1983 are not far enough behind to be forgotten."

According to Wilson, "The drastic changes in operating economic postures demanded for short-term survival are acknowledged as having significant long-term benefits."

He adds that any predictions being given by the industry today are carefully constructed to include a "healthy respect for interest rates, employment, housing, auto production, taxes and politics."

Wilson says that the major barometers point to a moderating of 1985 growth rates but says that construction, autos and appliances all should continue their present strength through the second quarter, although overall the year

his own market area."

Morrie E. Halvorsen, executive director of the Specialty Tools and Fasteners Distributors Assn. says that STAFDA members are coming out of 1984 with an increase of around 22% over 1983 which was also a good year. Average member sales are running about 50% over 1982 levels, reflecting a very sharp improvement.

And STAFDA members are forecasting a 19% increase for the first quarter of 1985 and are generally optimistic for the balance of 1985.

As far as STAFDA's primary business, construction, is concerned, what happens on interest rates is going to have a major bearing, particularly for the latter half of the year.

For the first half, Halvorsen says that "There is enough work in progress and on the drawing boards to get us into the third quarter anyway.

"Although there has been some import penetration on construction fasteners," he reports, "there has been nowhere near the competition felt by industrial fasteners. Imports account for less than 10% of construction fasteners."

The only area of the country where

have a good feeling. The profit margins aren't there and we're working on very low backlogs. Because we like to give great service we prefer to have low backlogs but you have mixed emotions about that subject," Kerr emphasizes.

Peter Femiak, distributor marketing manager of the Holo-Krome Co. says that the feeling of the industry is that it is pleased about the results of last year and "wishes" that this year will be as good as 1984.

"One thing we notice is when the industry is particularly concerned about quality, we've seen strong growth," Femiak points out. "We had a good year last year and it was in the higher quality products that we saw good growth. And the key to the business is consistency."

As for its own prognosis, Femiak says that the company hopes to equal its accomplishments of 1984 with "high technology" not its only target.

He emphasizes that, "the smokestack industries haven't exactly gone away. Sometimes people tend to think that 'high tech' is taking over the world but we're not giving up on heavy industry."

The president of St. Louis Screw & Bolt Co., James E. Schiele says that the U.S. industrial fastener industry today is strong, enterprising and very forward looking.

In just the past four years, Schiele stresses that "half of our industrial fastener manufacturing capacity was sold, dismantled or abandoned. The ability of this industry to rebound and reassert itself should serve as a model to other manufacturing groups in the industrial base that have been similarly victimized."

Schiele, chairman of the Industrial Fasteners Institute's Government Affairs Committee says that "Trade policy has too often been used as a wild card by the State Department in its deliberations with our trading partners and too little attention has been paid to the real consequences for American industry."

"The fastener industry is optimistic about 1985 because it is generally perceived that the greater part of the trauma of capacity reduction is in the past," says Schiele. "Companies producing industrial fasteners in the U.S. today are well positioned in their respective fields."

"There is also a growing awareness that interaction with the government, not only in trade matters but also in regulatory and environmental matters, is progressive. Accordingly, the Institute is positioning itself to be a more consistent voice in Washington," Schiele affirms. □

